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Accounting and the Small Business Man

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ACCOUNTING AND THE SMALL BUSINESS MAN

Taxes, wages, costs, and expenses today are high. Businesses everywhere, to maintain profitable operation, are seeking means of better control and efficiency.

Good accounting is an essential in attaining efficiency. But good accounting is often the missing link in the chain of operations of the small business enterprise. Several years ago the United States Department of Commerce, making a study of bankrupt businesses in one of the eastern seaboard states, found that lack of proper accounting was a basic cause of small business failure. Of the 487 business establishments studied, it was discovered that 23.5 per cent had kept no books; 29.4 per cent had kept inadequate books; and 39 per cent had never taken an inventory.

The small business man cannot be expert in all phases of business. Although he has an independence and an individualism lacking in the large factory or retail house, he makes a sacrifice for his autonomy. There is no place on his regular payrolls for the skilled specialists available in larger organizations. The answer to his accounting problems lies in securing outside professional help. Yet many small business men have no idea when to call on a certified public accountant for assistance, what kind of assistance he offers, or, for that matter, what a certified public accountant is.

To the average small business man, public accounting connotes large firms interested in serving only large

corporations. He does not realize that today there are many small firms of public accountants and many individual practitioners who are fully qualified and ready to be of help to him.

Why the CPA Can Help

Accounting helps take the guesswork out of business.

The operator of a small retail store can watch customers come and go and see merchandise sold from the shelves, but without adequate accounting records he can only guess about gross margins, variations in turnover of different classes of goods, balances of sales and stocks, or accruing costs and expenses.

The certified public accountant, acting as a consultant, can advise the small business man on the technical intricacies of accounting. He can counsel on such diverse subjects as insurance, taxation, securing capital, and financial planning. He brings to his task professional training and a fresh, objective viewpoint. By reason of his specialized knowledge, he can install accounts which will provide facts from which the business man can decide what is best to do.

Necessary Accounting Records

If a concern does not have a set of double-entry books, the independent accountant will design and install them. Each trade and each concern in a trade has its own problems.

The public accountant will study the peculiarities of the individual business and discuss with its proprietor what information the proprietor wants and needs. He will then plan a bookkeeping system to meet these requirements.

If a business already has a set of double-entry books, the accountant will review it and if necessary modernize it, expanding it or contracting it to fit the changing needs of the business, or revise it so that it will provide more valuable and useful information. Accounting is a tool of management and, like other tools, an accounting system can become obsolete. Few people would be satisfied with a twenty-year old automobile, but there are many business men whose accounting records are even more out of date.

Some public accountants maintain a bookkeeping service to take care of the books of clients whose volume of work is not great enough to warrant employing a full-time bookkeeper. In small businesses which do have a bookkeeper, the certified public accountant will help by coaching him in the latest accounting methods and offering assistance on unusual problems.

Using the Records

Accounting records are useless unless studied and acted on. Of themselves, they will not produce a dollar in profit. The information they supply needs interpreting. Properly interpreted, accounting records provide facts necessary for

two things: plan, and control.

Careful planning is careful budgeting - bringing all phases of the business into harmony so that the business will yield a profit. This cannot be accomplished without the details on costs, expenses, and income that accounting records alone provide.

Accounting records will show what the volume of business is and how much gross profit it yields. Out of this profit the expenses of doing business must be paid, with, in the successful enterprise, something left over for the owner. Knowing his gross profit, the proprietor can control his expenses so that they come within its margin. Regular accounting reports keep the proprietor informed on where his money is going, and make it easy for him to check any undesirable deviations from his business plan.

Typical of the information accounting records will furnish are data on the concern's natural business year - the period of twelve consecutive months when its activities have reached the lowest point in their annual cycle. The certified public accountant can give the proprietor advice on adoption of the natural business year. Financial statements prepared at the end of this period more accurately reflect the facts of the business. Such items as inventories and receivables, whose valuation involves a degree of estimate, are smallest then and the degree of estimate is correspondingly reduced. New policies are usually introduced at the beginning of the natural business year. Financial

statements prepared at its close, because they reflect the results of these policies over one complete cycle of operations, provide the proprietor with a check on their effectiveness.

The CPA as Auditor

The certified public accountant will audit the books of a business. An independent audit is a periodic check and review of the financial statements and the underlying accounts and records, made for the purpose of assuring that the concern's balance sheet and profit and loss statement fairly reflect its financial position and the results of its operations. The audit by an independent accountant is valuable in furnishing unbiased information about the concern for third parties - bankers and other credit grantors, inactive partners or stockholders.

Periodic audits frequently reveal irregularities and fraud. Dishonest acts and employee fraud take a large toll of business, particularly in small businesses which have no effective methods of internal control. Petty cash funds are easy to rob. Payrolls can be padded and checks can be raised. Complete accounting records, coupled with outside audits, minimize these possibilities.

Taxes

Since the Federal government says every taxpayer must keep such records as will disclose his taxable income, a

measure of bookkeeping in any business is necessary. Even if the government didn't require it, reliable accounting is indispensable in making an honest return that does justice to the business man himself as well as to the government.

Taxes are frequently overpaid by the small business man who doesn't know, for example, about certain types of deductions such as accelerated depreciation or amortization. The certified public accountant keeps abreast of tax developments with the tax position of his clients in mind, in order to have the required information ready and in usable form for tax needs.

What It Costs

Most certified public accountants charge for their services by the day or hour. The rates will naturally vary according to their background of experience and training, and the specialized services they offer. Some accountants specialize in certain phases of public accounting, just as some doctors specialize in surgery or pediatrics and some lawyers in court cases or estate work. Others conduct a general practice, just as some doctors and lawyers carry on a general practice.

Although an accountant cannot predict exactly how much time an engagement will take, he usually can give a close estimate. In order to make this estimate, he of course must

know something of the prospective client's current business situation and problems. The business man need not worry about discussing his problems with the certified public accountant, for the latter will maintain strictest confidence.

Professional Approach

In employing a certified public accountant, a business man is assured of getting the services of a professionally qualified man. The title certified public accountant is granted by the state only after the accountant has satisfied educational and experience requirements and has passed written examinations in accounting and related subjects conducted by legally constituted state authorities.

Because of his wide experience in accounting work in different types of businesses, the certified public accountant brings a fresh, broad approach to the problems of his clients. Being a relative "outsider", he can often point out facts and trends which the proprietor or managers of a concern have overlooked. He is not a miracle man, but he is an expert whose special skills make his services valuable to any business man.